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# A BILL FOR AN ACT

RELATING TO UNEMPLOYMENT COMPENSATION.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that unemployed persons  
2 spend all or most of the unemployment compensation within the  
3 local economy. The legislature also finds that the benefit of  
4 those expenditures will be maximized by temporarily exempting  
5 unemployment benefit from income taxation.

6           The purpose of this Act is to promote economic  
7 revitalization by temporarily exempting income from unemployment  
8 compensation from state income taxation.

9           SECTION 2. Section 235-2.3, Hawaii Revised Statutes, is  
10 amended by amending subsection (b) to read as follows:

11           "(b) The following Internal Revenue Code subchapters,  
12 parts of subchapters, sections, subsections, and parts of  
13 subsections shall not be operative for the purposes of this  
14 chapter, unless otherwise provided:

15           (1) Subchapter A (sections 1 to 59A) (with respect to  
16           determination of tax liability), except section  
17           1(h) (2) (relating to net capital gain reduced by the  
18           amount taken into account as investment income),



1           except sections 2(a), 2(b), and 2(c) (with respect to  
2           the definition of "surviving spouse" and "head of  
3           household"), except section 41 (with respect to the  
4           credit for increasing research activities), except  
5           section 42 (with respect to low-income housing  
6           credit), except sections 47 and 48, as amended, as of  
7           December 31, 1984 (with respect to certain depreciable  
8           tangible personal property), and except section  
9           48(d)(3), as amended, as of February 17, 2009 (with  
10          respect to the treatment of United States Department  
11          of Treasury grants made under section 1603 of the  
12          American Recovery and Reinvestment Tax Act of 2009).  
13          For treatment, see sections 235-110.91, 235-110.7, and  
14          235-110.8;  
15          (2) Section 78 (with respect to dividends received from  
16          certain foreign corporations by domestic corporations  
17          choosing foreign tax credit);  
18          (3) Section 85 (with respect to unemployment  
19          compensation);  
20          [~~(3)~~] (4) Section 86 (with respect to social security and  
21          tier 1 railroad retirement benefits);

1           ~~[(4)]~~ (5) Section 103 (with respect to interest on state  
2                                      and local bonds). For treatment, see section 235-  
3                                      7(b);

4           ~~[(5)]~~ (6) Section 114 (with respect to extraterritorial  
5                                      income). For treatment, any transaction as specified  
6                                      in the transitional rule for 2005 and 2006 as  
7                                      specified in the American Jobs Creation Act of 2004  
8                                      section 101(d) and any transaction that has occurred  
9                                      pursuant to a binding contract as specified in the  
10                                     American Jobs Creation Act of 2004 section 101(f) are  
11                                     inoperative;

12           ~~[(6)]~~ (7) Section 120 (with respect to amounts received  
13                                      under qualified group legal services plans). For  
14                                      treatment, see section 235-7(a)(9) to (11);

15           ~~[(7)]~~ (8) Section 122 (with respect to certain reduced  
16                                      uniformed services retirement pay). For treatment,  
17                                      see section 235-7(a)(3);

18           ~~[(8)]~~ (9) Section 135 (with respect to income from United  
19                                      States savings bonds used to pay higher education  
20                                      tuition and fees). For treatment, see section 235-  
21                                      7(a)(1);



- 1        [~~(9)~~] (10) Section 139C (with respect to COBRA premium
- 2                        assistance);
- 3        [~~(10)~~] (11) Subchapter B (sections 141 to 150) (with respect
- 4                        to tax exemption requirements for state and local
- 5                        bonds);
- 6        [~~(11)~~] (12) Section 151 (with respect to allowance of
- 7                        deductions for personal exemptions). For treatment,
- 8                        see section 235-54;
- 9        [~~(12)~~] (13) Section 179B (with respect to expensing of
- 10                      capital costs incurred in complying with Environmental
- 11                      Protection Agency sulphur regulations);
- 12        [~~(13)~~] (14) Section 181 (with respect to special rules for
- 13                      certain film and television productions);
- 14        [~~(14)~~] (15) Section 196 (with respect to deduction for
- 15                      certain unused investment credits);
- 16        [~~(15)~~] (16) Section 199 (with respect to the U.S. production
- 17                      activities deduction);
- 18        [~~(16)~~] (17) Section 222 (with respect to qualified tuition
- 19                      and related expenses);
- 20        [~~(17)~~] (18) Sections 241 to 247 (with respect to special
- 21                      deductions for corporations). For treatment, see
- 22                      section 235-7(c);



- 1        [~~(18)~~] (19) Section 280C (with respect to certain expenses  
2                    for which credits are allowable). For treatment, see  
3                    section 235-110.91;
- 4        [~~(19)~~] (20) Section 291 (with respect to special rules  
5                    relating to corporate preference items);
- 6        [~~(20)~~] (21) Section 367 (with respect to foreign  
7                    corporations);
- 8        [~~(21)~~] (22) Section 501(c)(12), (15), (16) (with respect to  
9                    exempt organizations);
- 10       [~~(22)~~] (23) Section 515 (with respect to taxes of foreign  
11                   countries and possessions of the United States);
- 12       [~~(23)~~] (24) Subchapter G (sections 531 to 565) (with respect  
13                   to corporations used to avoid income tax on  
14                   shareholders);
- 15       [~~(24)~~] (25) Subchapter H (sections 581 to 597) (with respect  
16                   to banking institutions), except section 584 (with  
17                   respect to common trust funds). For treatment, see  
18                   chapter 241;
- 19       [~~(25)~~] (26) Section 642(a) and (b) (with respect to special  
20                   rules for credits and deductions applicable to  
21                   trusts). For treatment, see sections 235-54(b) and  
22                   235-55;



- 1        [~~(26)~~] (27)    Section 646 (with respect to tax treatment of
- 2                    electing Alaska Native settlement trusts);
- 3        [~~(27)~~] (28)    Section 668 (with respect to interest charge on
- 4                    accumulation distributions from foreign trusts);
- 5        [~~(28)~~] (29)    Subchapter L (sections 801 to 848) (with respect
- 6                    to insurance companies). For treatment, see sections
- 7                    431:7-202 and 431:7-204;
- 8        [~~(29)~~] (30)    Section 853 (with respect to foreign tax credit
- 9                    allowed to shareholders). For treatment, see section
- 10                   235-55;
- 11        [~~(30)~~] (31)    Section 853A (with respect to credits from tax
- 12                    credit bonds allowed to shareholders);
- 13        [~~(31)~~] (32)    Subchapter N (sections 861 to 999) (with respect
- 14                    to tax based on income from sources within or without
- 15                    the United States), except sections 985 to 989 (with
- 16                    respect to foreign currency transactions). For
- 17                    treatment, see sections 235-4, 235-5, and 235-7(b),
- 18                    and 235-55;
- 19        [~~(32)~~] (33)    Section 1042(g) (with respect to sales of stock
- 20                    in agricultural refiners and processors to eligible
- 21                    farm cooperatives);



- 1        [~~(33)~~] (34) Section 1055 (with respect to redeemable ground  
2                rents);
- 3        [~~(34)~~] (35) Section 1057 (with respect to election to treat  
4                transfer to foreign trust, etc., as taxable exchange);
- 5        [~~(35)~~] (36) Sections 1291 to 1298 (with respect to treatment  
6                of passive foreign investment companies);
- 7        [~~(36)~~] (37) Subchapter Q (sections 1311 to 1351) (with  
8                respect to readjustment of tax between years and  
9                special limitations);
- 10       [~~(37)~~] (38) Subchapter R (sections 1352 to 1359) (with  
11               respect to election to determine corporate tax on  
12               certain international shipping activities using per  
13               ton rate);
- 14       [~~(38)~~] (39) Subchapter U (sections 1391 to 1397F) (with  
15               respect to designation and treatment of empowerment  
16               zones, enterprise communities, and rural development  
17               investment areas). For treatment, see chapter 209E;
- 18       [~~(39)~~] (40) Subchapter W (sections 1400 to 1400C) (with  
19               respect to District of Columbia enterprise zone);
- 20       [~~(40)~~] (41) Section 14000 (with respect to education tax  
21               benefits);



1        [~~(41)~~] (42) Section 1400P (with respect to housing tax  
2                                    benefits);

3        [~~(42)~~] (43) Section 1400R (with respect to employment  
4                                    relief);

5        [~~(43)~~] (44) Section 1400T (with respect to special rules for  
6                                    mortgage revenue bonds);

7        [~~(44)~~] (45) Section 1400U-1 (with respect to allocation of  
8                                    recovery zone bonds);

9        [~~(45)~~] (46) Section 1400U-2 (with respect to recovery zone  
10                                   economic development bonds); and

11       [~~(46)~~] (47) Section 1400U-3 (with respect to recovery zone  
12                                   facility bonds)."

13                 SECTION 3. Section 235-2.4, Hawaii Revised Statutes, is  
14 amended to read as follows:

15                 "§235-2.4 Operation of certain Internal Revenue Code  
16 provisions; sections 63 to 530. (a) Section 63 (with respect  
17 to taxable income defined) of the Internal Revenue Code shall be  
18 operative for the purposes of this chapter, subject to the  
19 following:

- 20                 (1) Sections 63(c)(1)(B) (relating to the additional  
21                                    standard deduction), 63(c)(1)(C) (relating to the real  
22                                    property tax deduction), 63(c)(1)(D) (relating to the





1 disaster loss deduction), 63(c)(1)(E) (relating to the  
2 motor vehicle sales tax deduction), 63(c)(4) (relating  
3 to inflation adjustments), 63(c)(7) (defining the real  
4 property tax deduction), 63(c)(8) (defining the  
5 disaster loss deduction), 63(c)(9) (defining the motor  
6 vehicle sales tax deduction), and 63(f) (relating to  
7 additional amounts for the aged or blind) of the  
8 Internal Revenue Code shall not be operative for  
9 purposes of this chapter;

10 (2) Section 63(c)(2) (relating to the basic standard  
11 deduction) of the Internal Revenue Code shall be  
12 operative, except that the standard deduction amounts  
13 provided therein shall instead mean:

14 (A) \$4,400 in the case of:

15 (i) A joint return as provided by section 235-  
16 93; or

17 (ii) A surviving spouse (as defined in section  
18 2(a) of the Internal Revenue Code);

19 (B) \$3,212 in the case of a head of household (as  
20 defined in section 2(b) of the Internal Revenue  
21 Code);



1 (C) \$2,200 in the case of an individual who is not  
2 married and who is not a surviving spouse or head  
3 of household; or

4 (D) \$2,200 in the case of a married individual filing  
5 a separate return;

6 (3) Section 63(c)(5) (limiting the basic standard  
7 deduction in the case of certain dependents) of the  
8 Internal Revenue Code shall be operative, except that  
9 the limitation shall be the greater of \$500 or such  
10 individual's earned income; and

11 (4) The standard deduction amount for nonresidents shall  
12 be calculated pursuant to section 235-5.

13 (b) Section 72 (with respect to annuities; certain  
14 proceeds of endowment and life insurance contracts) of the  
15 Internal Revenue Code shall be operative for purposes of this  
16 chapter and be interpreted with due regard to section 235-7(a),  
17 except that the ten per cent additional tax on early  
18 distributions from retirement plans in section 72(t) shall not  
19 be operative for purposes of this chapter.

20 ~~[(c) Section 85 (with respect to unemployment~~  
21 ~~compensation) of the Internal Revenue Code shall be operative~~



1 ~~for purposes of this chapter, except that section 85(c) shall~~  
2 ~~not be operative for purposes of this chapter.~~

3 ~~(d)]~~ (c) Section 108 (with respect to income from  
4 discharge of indebtedness) of the Internal Revenue Code shall be  
5 operative for purposes of this chapter, except that section  
6 108(i) (relating to deferral and ratable inclusion of income  
7 arising from business indebtedness discharged by the  
8 reacquisition of a debt instrument) shall not be operative for  
9 purposes of this chapter.

10 ~~[(e)]~~ (d) Section 121 (with respect to exclusion of gain  
11 from sale of principal residence) of the Internal Revenue Code  
12 shall be operative for purposes of this chapter, except that for  
13 the election under section 121(f), a reference to section 1034  
14 treatment means a reference to section 235-2.4(s) in effect for  
15 taxable year 1997.

16 ~~[(f)]~~ (e) Section 132 (with respect to certain fringe  
17 benefits) of the Internal Revenue Code shall be operative for  
18 purposes of this chapter, except that the provision in section  
19 132(f)(2) that equalizes the dollar amounts for sections  
20 132(f)(2)(A) and (B) after February 17, 2009, until January 1,  
21 2011, shall not be operative and except that section 132(n)  
22 shall not apply to United States Department of Defense



1 Homeowners Assistance Program payments authorized by the  
2 American Recovery and Reinvestment Act of 2009.

3 ~~[(g)]~~ (f) Section 163 (with respect to interest) of the  
4 Internal Revenue Code shall be operative for the purposes of  
5 this chapter, except that provisions in section 163(d)(4)(B)  
6 (defining net investment income to exclude dividends), section  
7 163(e)(5)(F) (suspension of applicable high-yield discount  
8 obligation (AHYDO) rules) and section 163(i)(1) as it applies to  
9 debt instruments issued after January 1, 2010, (defining AHYDO)  
10 shall not be operative for the purposes of this chapter.

11 ~~[(h)]~~ (g) Section 164 (with respect to taxes) of the  
12 Internal Revenue Code shall be operative for the purposes of  
13 this chapter, except that sections 164(a)(6) and 164(b)(6) shall  
14 not be operative for the purposes of this chapter.

15 ~~[(i)]~~ (h) Section 165 (with respect to losses) of the  
16 Internal Revenue Code shall be operative for purposes of this  
17 chapter, except that the amount prescribed by sections 165(h)(1)  
18 (relating to the limitation per casualty) of the Internal  
19 Revenue Code shall be a \$100 limitation per casualty, and  
20 sections 165(h)(3)(A) and 165(h)(3)(B) (both of which relate to  
21 special rules for personal casualty gains and losses in  
22 federally declared disasters) of the Internal Revenue Code shall



1 not be operative for the purposes of this chapter. Section 165  
2 as operative for this chapter shall also apply to losses  
3 sustained from the sale of stocks or other interests issued  
4 through the exercise of the stock options or warrants granted by  
5 a qualified high technology business as defined in section 235-  
6 7.3.

7       ~~[(j)]~~ (i) Section 168 (with respect to the accelerated  
8 cost recovery system) of the Internal Revenue Code shall be  
9 operative for purposes of this chapter, except that sections  
10 168(j) (relating to property on Indian reservations), 168(k)  
11 (relating to the special allowance for certain property acquired  
12 during the period specified therein), 168(m) (relating to the  
13 special allowance for certain reuse and recycling property), and  
14 168(n) (relating to the special allowance for qualified disaster  
15 assistance property) of the Internal Revenue Code shall not be  
16 operative for purposes of this chapter.

17       ~~[(k)]~~ (j) Section 172 (with respect to net operating loss  
18 deductions) of the Internal Revenue Code shall be operative for  
19 purposes of this chapter, as further provided in section 235-  
20 7(d), except that sections 172(b)(1)(J) and 172(j) (both of  
21 which relate to qualified disaster losses) of the Internal



1 Revenue Code shall not be operative for purposes of this  
2 chapter.

3 ~~[(1)]~~ (k) Section 179 (with respect to the election to  
4 expense certain depreciable business assets) of the Internal  
5 Revenue Code shall be operative for purposes of this chapter,  
6 except that provisions relating to:

- 7 (1) The increase of the maximum deduction to \$100,000 for  
8 taxable years beginning after 2002 and before 2008,  
9 and the increase of the maximum deduction to \$125,000  
10 for taxable years beginning after 2006 and before  
11 2011, in section 179(b)(1);
- 12 (2) The increase of the qualifying investment amount to  
13 \$400,000 for taxable years beginning after 2002 and  
14 before 2008, and the increase of the qualifying  
15 investment amount to \$500,000 for taxable years  
16 beginning after 2006 and before 2011, in section  
17 179(b)(2);
- 18 (3) The increase of the maximum deduction to \$250,000 and  
19 the increase of the qualifying investment amount to  
20 \$800,000 for taxable years beginning in 2008 or 2009,  
21 in section 179(b)(7);



1 (4) Defining section 179 property to include computer  
2 software in section 179(d)(1);  
3 (5) Inflation adjustments in section 179(b)(5);  
4 (6) Irrevocable election in section 179(c)(2); and  
5 (7) Special rules for qualified disaster assistance  
6 property in section 179(e),  
7 shall not be operative for the purposes of this chapter.

8 ~~[(m)]~~ (l) Section 198A (with respect to the expensing of  
9 qualified disaster assistances expenses) of the Internal Revenue  
10 Code shall not be operative for purposes of this chapter.

11 ~~[(n)]~~ (m) Section 219 (with respect to retirement savings)  
12 of the Internal Revenue Code shall be operative for the purpose  
13 of this chapter. For the purpose of computing the limitation on  
14 the deduction for active participants in certain pension plans  
15 for state income tax purposes, adjusted gross income as used in  
16 section 219 as operative for this chapter means federal adjusted  
17 gross income.

18 ~~[(o)]~~ (n) Section 220 (with respect to medical savings  
19 accounts) of the Internal Revenue Code shall be operative for  
20 the purpose of this chapter, but only with respect to medical  
21 services accounts that have been approved by the Secretary of  
22 the Treasury of the United States.



1           ~~[(p)]~~ (o) Section 265 (with respect to expenses and  
2 interest relating to tax-exempt income) of the Internal Revenue  
3 Code shall be operative for purposes of this chapter; except  
4 that sections 265(b)(3)(G) and 265(b)(7) shall not be operative  
5 and that section 265 shall not apply to expenses for royalties  
6 and other income derived from any patents, copyrights, and trade  
7 secrets by an individual or a qualified high technology business  
8 as defined in section 235-7.3. Such expenses shall be  
9 deductible.

10           ~~[(q)]~~ (p) Section 382 (with respect to limitation on net  
11 operating loss carryforwards and certain built-in losses  
12 following ownership change) of the Internal Revenue Code shall  
13 be operative for the purposes of this chapter, except that  
14 section 382(n) shall not be operative for purposes of this  
15 chapter.

16           ~~[(r)]~~ (q) Section 408A (with respect to Roth Individual  
17 Retirement Accounts) of the Internal Revenue Code shall be  
18 operative for the purposes of this chapter, except that section  
19 408A(d)(3)(A)(iii) shall not be operative for purposes of this  
20 chapter. For the purposes of determining the aggregate amount  
21 of contributions to a Roth Individual Retirement Account or  
22 qualified rollover contribution to a Roth Individual Retirement





1 Account from an individual retirement plan other than a Roth  
2 Individual Retirement Account, adjusted gross income as used in  
3 section 408A as operative for this chapter means federal  
4 adjusted gross income.

5 ~~[(s)]~~ (r) In administering the provisions of sections 410  
6 to 417 (with respect to special rules relating to pensions,  
7 profit sharing, stock bonus plans, etc.), sections 418 to 418E  
8 (with respect to special rules for multiemployer plans), and  
9 sections 419 and 419A (with respect to treatment of welfare  
10 benefit funds) of the Internal Revenue Code, the department of  
11 taxation shall adopt rules under chapter 91 relating to the  
12 specific requirements under such sections and to such other  
13 administrative requirements under those sections as may be  
14 necessary for the efficient administration of sections 410 to  
15 419A.

16 In administering sections 401 to 419A (with respect to  
17 deferred compensation) of the Internal Revenue Code, Public Law  
18 93-406, section 1017(i), shall be operative for the purposes of  
19 this chapter.

20 In administering section 402 (with respect to the  
21 taxability of beneficiary of employees' trust) of the Internal  
22 Revenue Code, the tax imposed on lump sum distributions by



1 section 402(e) of the Internal Revenue Code shall be operative  
2 for the purposes of this chapter and the tax imposed therein is  
3 hereby imposed by this chapter at the rate determined under this  
4 chapter.

5 ~~[(t)]~~ (s) In administering section 403 (with respect to  
6 taxation of employee annuities) of the Internal Revenue Code,  
7 any funds that represent pre-tax employee deferrals or  
8 contributions that are distributed from the annuity and used  
9 solely to obtain retirement credits under the state employees'  
10 retirement system shall not be treated as a rollover for  
11 purposes of section 403(b)(8)(A) of the Internal Revenue Code,  
12 and such funds shall be subject to income tax under this  
13 chapter.

14 ~~[(u)]~~ (t) Section 451 (which provides general rules for  
15 taxable year of inclusion) of the Internal Revenue Code shall be  
16 operative, except that the provisions of sections 451(i)(3) and  
17 451(i)(6), as they relate to a qualified electric utility, shall  
18 not be operative for purposes of this chapter.

19 ~~[(v)]~~ (u) In administering section 457 (with respect to  
20 compensation plans of state and local governments and tax-exempt  
21 organizations) of the Internal Revenue Code, any funds that  
22 represent pre-tax employee deferrals or contributions that are



1 distributed from the deferred compensation plan and used solely  
2 to obtain retirement credits under the state employees'  
3 retirement system shall not be treated as a rollover for  
4 purposes of section 457(e)(16)(A) of the Internal Revenue Code  
5 and such funds shall be subject to income tax under this  
6 chapter.

7       ~~(w)~~ (v) Section 468B (with respect to special rules for  
8 designated settlement funds) of the Internal Revenue Code shall  
9 be operative for the purposes of this chapter and the tax  
10 imposed therein is hereby imposed by this chapter at a rate  
11 equal to the maximum rate in effect for the taxable year imposed  
12 on estates and trusts under section 235-51.

13       ~~(x)~~ (w) Section 469 (with respect to passive activities  
14 and credits limited) of the Internal Revenue Code shall be  
15 operative for the purposes of this chapter. For the purpose of  
16 computing the offset for rental real estate activities for state  
17 income tax purposes, adjusted gross income as used in section  
18 469 as operative for this chapter means federal adjusted gross  
19 income.

20       ~~(y)~~ (x) Sections 512 to 514 (with respect to taxation of  
21 business income of certain exempt organizations) of the Internal



1 Revenue Code shall be operative for the purposes of this chapter  
2 as provided in this subsection.

3 "Unrelated business taxable income" means the same as in  
4 the Internal Revenue Code, except that in the computation  
5 thereof sections 235-3 to 235-5, and 235-7 (except subsection  
6 (c)), shall apply, and in the determination of the net operating  
7 loss deduction there shall not be taken into account any amount  
8 of income or deduction that is excluded in computing the  
9 unrelated business taxable income. Unrelated business taxable  
10 income shall not include any income from a prepaid legal service  
11 plan.

12 For a person described in section 401 or 501 of the  
13 Internal Revenue Code, as modified by section 235-2.3, the tax  
14 imposed by section 235-51 or 235-71 shall be imposed upon the  
15 person's unrelated business taxable income.

16 [~~z~~] (y) Section 521 (with respect to cooperatives) and  
17 subchapter T (sections 1381 to 1388, with respect to  
18 cooperatives and their patrons) of the Internal Revenue Code  
19 shall be operative for the purposes of this chapter as to any  
20 cooperative fully meeting the requirements of section 421-23,  
21 except that Internal Revenue Code section 521 cooperatives need  
22 not be organized in Hawaii.



1           ~~[(aa)]~~ (z) Sections 527 (with respect to political  
2 organizations) and 528 (with respect to certain homeowners  
3 associations) of the Internal Revenue Code shall be operative  
4 for the purposes of this chapter and the taxes imposed in each  
5 section are hereby imposed by this chapter at the rates  
6 determined under section 235-71.

7           ~~[(bb)]~~ (aa) Section 529 (with respect to qualified tuition  
8 programs) shall be operative for the purposes of this chapter,  
9 except that sections 529(c)(6) and 529(e)(3)(A)(iii) shall not  
10 be operative.

11           ~~[(ee)]~~ (bb) Section 530 (with respect to education  
12 individual retirement accounts) of the Internal Revenue Code  
13 shall be operative for the purposes of this chapter. For the  
14 purpose of determining the maximum amount that a contributor  
15 could make to an education individual retirement account for  
16 state income tax purposes, modified adjusted gross income as  
17 used in section 530 as operative for this chapter means federal  
18 modified adjusted gross income as defined in section 530."

19           SECTION 4. Section 383-163.6, Hawaii Revised Statutes, is  
20 amended to read as follows:

21           " ~~[+]~~ §383-163.6 ~~[+]~~ Voluntary deduction and withholding of  
22 federal and other state or local income taxes. (a) An



1 individual filing a new claim for unemployment compensation  
2 shall, at the time of filing the claim, be advised that:

3 (1) Unemployment compensation is subject to federal [and  
4 state] income tax[+] and may be subject to another  
5 state's or locality's income tax;

6 (2) Requirements exist pertaining to estimated tax  
7 payments;

8 (3) The individual may elect to have federal income tax  
9 deducted and withheld from the individual's payment of  
10 unemployment compensation at the amount specified in  
11 the federal Internal Revenue Code;

12 ~~[-(4)- The individual may elect to have state income tax~~  
13 ~~deducted and withheld from the individual's payment of~~  
14 ~~unemployment compensation at the amount specified in~~  
15 ~~section 235-69;~~

16 ~~-(5)-~~ (4) The individual may elect to have state and local  
17 income taxes deducted and withheld from the  
18 individual's payment of unemployment compensation for  
19 other states and localities outside this State at the  
20 percentage established by the state or locality, if  
21 the department by agreement with the other state or



1           locality is authorized to deduct and withhold income  
2           tax; and

3       ~~[(6)]~~ (5) The individual shall be permitted to change a  
4           previously elected withholding status no more than  
5           once during a benefit year.

6           (b) Amounts deducted and withheld from unemployment  
7    compensation shall remain in the unemployment compensation fund  
8    until transferred to the federal~~[7]~~ tax authority or the tax  
9    authority of another state~~[7]~~ or ~~[local taxing authority]~~  
10 locality as a payment of income tax.

11          (c) The director shall follow all procedures specified by  
12 the United States Department of Labor~~[7]~~ and the ~~[federal]~~  
13 Internal Revenue Service~~[7]~~ ~~and the state department of~~  
14 ~~taxation,~~ pertaining to the deducting and withholding of income  
15 tax.

16          (d) Amounts shall be deducted and withheld under this  
17 section only after any other amounts allowed under chapter 383  
18 are deducted and withheld."

19       SECTION 5. Section 235-69, Hawaii Revised Statutes, is  
20 repealed.

21       ~~"[§235-69] Voluntary deduction and withholding of state~~  
22 ~~income tax from unemployment compensation. An individual~~



1 ~~receiving unemployment compensation benefits under chapter 383~~  
 2 ~~may elect to have state income tax deducted and withheld from~~  
 3 ~~the individual's payment of unemployment compensation at the~~  
 4 ~~rate of five per cent in accordance with section 383-163.6."]~~

5 SECTION 6. Statutory material to be repealed is bracketed  
 6 and stricken. New statutory material is underscored.

7 SECTION 7. This Act, upon its approval, shall apply to  
 8 taxable years beginning after December 31, 2010, and shall be  
 9 repealed on December 31, 2015; provided that sections 235-  
 10 2.3(b), 235-2.4, 235-69, and 383-163.6, Hawaii Revised Statutes,  
 11 shall be reenacted on January 1, 2016, in the form in which they  
 12 existed on the date before the effective date of this Act.

13

INTRODUCED BY:                     *Calvin K. Y. Au*                    

JAN 21 2011





**Report Title:**

Unemployment Compensation; Income Tax Exemption

**Description:**

Temporarily exempts unemployment compensation from the Hawaii income tax.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

